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**BUDGET AUGMENTATIONS/REDUCTIONS AND
CLEAN-UP ADJUSTMENTS**

Recommended Augmentation/Reduction Adjustments Overview

This section of the Mid-Year Budget Review summarizes proposed budget augmentations/reductions in all funds and includes a breakdown by the General Fund and by Special/Capital Funds. Both the General Fund and Special/Capital Funds sections are divided into the following two parts:

Augmentation/Reduction Summary – The summary that follows describes all proposed augmentations and reductions, except for those detailed in the Clean-Up Adjustment Actions section. The General Fund Augmentations and Reductions are organized into six categories: 2007-2008 Future Deficit Reserve, Required Adjustments, Grants/Reimbursements, Development Fee Programs, Enhanced Parks Maintenance, and City Manager Initiatives.

- Described in the 2007-2008 Future Deficit Reserve category is the recommended implementation of 2006-2007 Cost/Position Management Plans. In December 2006, for the sixth year in a row, departments (in coordination with the appropriate City Service Area (CSA)) were assigned General Fund Cost/Position Management Plan reduction targets to achieve cost savings with the least impact on City services. All General Fund departments were assigned a 1.5% target (applied to their adjusted base budget), with the exception of the Fire Department, the Police Department, the Office of Emergency Services, and the Independent Police Auditor's Office. These Public Safety departments and offices were assigned a 0.5% target. These reductions are intended to generate additional savings in the General Fund as a means to begin to offset the projected 2007-2008 shortfall and to preserve position vacancies to provide redeployment flexibility and prevent employee layoffs in the coming year. Based on CSA and departmental recommendations, a total of \$4.2 million in cumulative savings is expected to be achieved by year-end. These savings are recommended in this report to be removed from each department and added in the 2007-2008 Future Deficit Reserve (bringing the total reserve to \$10.6 million) to be available later as one of many strategy options possible to balance the projected 2007-2008 General Fund budget shortfall. Specific information, detailed by CSA, regarding the implementation of the 2006-2007 CSA/Department Cost/Position Management Plans is provided below.

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Recommended Augmentation/Reduction Adjustments Overview (Cont'd.)

- 2007-2008 Future Deficit Reserve (Cont'd.)

Community and Economic Development

In the Office of Economic Development, total savings of \$56,000 is expected to be achieved. Savings were identified by shifting funding for a portion of an Economic Development Officer from the General Fund to the Community Development Block Grant (CDBG) Fund to support the Revolving Loan Program that was once supported by an outside contractor. There will be no service level impact since loan services will continue at current levels.

Environmental and Utility Services

The Environmental Services Department's Cost/Position Management Plan identified \$25,000 in non-personal/equipment savings to achieve its target. These savings will be generated through the Public Litter Can Program. Based upon activity levels, it is anticipated that the reduced funding level will have no impact on the current levels of service.

Neighborhood Services

The Cost/Position Management Plan for the Parks, Recreation and Neighborhood Services (PRNS) Department includes savings totaling \$642,000. The majority of savings have already been generated through the personal services appropriation from positions that were vacant during the first half of the year. There are 5.63 positions, including 2.0 Recreation Superintendents, 1.0 Youth Outreach Worker, a part-time Maintenance Assistant, and 2.0 Office Specialists, that the Department will hold vacant for a portion of the second half of the year to achieve the remaining savings target. No impact on the current levels of service is expected.

The Library Department's Cost/Position Management Plan identified savings totaling approximately \$388,000. Savings will be achieved by redirecting personal services costs towards the Library Parcel Tax Fund that has prior year funding available for this purpose. The overall service levels and performance of the Library Department are not anticipated to be impacted with this action.

The Planning, Building and Code Enforcement Department's Cost/Position Management Plan identified a vacant Code Enforcement Inspector position (vacant since March 2004) to achieve its target of \$86,703. Holding this position vacant will result in a continuation of a reduction to community code enforcement services. No additional impact on the current levels of service is expected.

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- 2007-2008 Future Deficit Reserve (Cont'd.)

Public Safety

Savings of \$1.1 million identified by the Police Department primarily consists of savings from civilian vacancies (\$750,000). The Department has generated savings from civilian positions that were vacant during the first half of the year and current vacant positions that are in the process of being filled. Because the plan relies on savings associated with the lag time for filling vacancies, rather than freezing vacant positions, there is no additional service impact to Police operations. The remaining savings of \$300,000 will be generated from vehicle replacement funding due to a reduction in the number of marked vehicles needing to be replaced this year. This reduction, which is largely due to the Police Department vehicle rotation program that more efficiently spread mileage among the vehicle fleet, will still allow for the continued deployment of safe and reliable vehicles. For the Fire Department, savings of \$457,000 will be generated from several recommended actions including the shift of funding from the General Fund to the Fire Construction and Conveyance Tax Fund (\$52,000) for the purchase of replacement turnout boots and pants; a reduction in discretionary overtime expenditures (\$50,000); the reimbursement of special operations training by the State Homeland Security Grant (\$290,000); and a general reduction to the supplies and stores budget (\$65,000). The Department will manage discretionary overtime and supplies and stores reductions to avoid service impacts.

Savings in the Office of Emergency Services of \$1,839 will be generated from vacancy savings due to a position retirement. No impact on current levels of service is expected as the position is being backfilled temporarily at a lower cost. Savings in the Office of the Independent Police Auditor of \$3,728 is generated through savings identified in supplies and printing. This reduction will impact the number of materials available to the public.

Transportation and Aviation Services

Most of the \$365,000 savings identified by the Department of Transportation are generated by savings from long-term position vacancies, and continuing to hold these positions vacant would not have any further service level impacts beyond those already realized. Although essential functions of the vacant positions are being absorbed by other staff members, the Cost/Position Management Plan will require the Department to continue to experience limitations as follows:

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Transportation and Aviation Services (Cont'd.)

slight decline in landscape condition rating, a slight reduction in the timeliness of the percentage of all roadway markings service requests completed within seven days, a reduction in the percentage of signs and markings installed in response to customer complaints, and updates to a list of CIP signals to be constructed or modified will experience minimal impacts.

Strategic Support

Savings of approximately \$651,000 will be generated through a combination of personal services savings and non-personal/equipment reductions. In the Public Works Department and Information Technology Department, non-personal/equipment reductions will have minimal service level impacts. Non-personal/equipment needs in the Public Works Department have been re-evaluated and lower-priority needs, such as training, will be scaled back. In the Information Technology Department, \$201,000 in savings associated with the Server/Storage Area Network (SAN) have been realized. In the Finance, Human Resources, and General Services Departments, vacancy savings that were realized over the first half of the year will be recognized.

The Cost/Position Management Plans for the Mayor, City Council and Appointees contribute approximately \$488,000 in combined savings to the General Fund. Savings in the Offices of the City Attorney, City Auditor, City Clerk and City Manager are realized primarily from salary savings from vacant positions. These reductions are not expected to impact current service levels. In addition, non-personal/equipment savings are expected in the Offices of the City Manager, Independent Police Auditor (as discussed in the *Public Safety* section), and City Clerk. The reductions to the Office of the City Manager are not expected to impact current service levels. The Office of the City Clerk will use only a portion of its budget for technology upgrades, and the Office will make every effort to minimize the impact of these savings on public disclosure. For the Mayor and City Council, budget savings will be realized in an equal percentage (1.5%) from the Mayor, Council and Council General budgets, with no service impacts anticipated.

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- The Required Adjustments category contains various recommended adjustments that are considered unavoidable and/or prudent to fund. The largest proposed changes include: the March special elections for City Council Districts 4 and 6, as well as funding for a potential run-off election for Council District 4 in June (\$1,161,000), and increased funding for the City for Jail Bookings Fees based on a recalculation by the County (\$888,000). Similarly, funding is recommended for the allocation of the proceeds from the sale of surplus property above the budgeted estimate, per Council Policy, into the Economic Uncertainty Reserve (\$393,000), continued analysis of future uses for the Old City Hall and employee parking lot (\$175,000), and Police ammunition and body armor funding due to cost increases resulting from increased military demand (\$162,000). In addition, the reconfiguration of the Call Center work space (\$100,000) is a recommended adjustment in this section.
- In the Grants/Reimbursements category, revenues received or anticipated to be received from various outside sources are recognized with corresponding appropriations recommended to implement the grants.
- The Development Fee Programs category includes various adjustments, all funded by fee reserves, such as improvements to the Planning, Building and Code Enforcement Department's Building Development Fee Program's Request for Service module that creates "to-do" lists complete with deadlines and a scientific system to record the customer experience so that this information can be benchmarked to other jurisdictions. Also included are various adjustments in the Fire Department Development Fee Program to provide staff training and materials to ensure compliance with the updated fire code, for consultant services to conduct plan checks, and funding for the purchase of a staff vehicle that was inadvertently left out of the Adopted Budget. Similarly, additional funding is recommended in the Public Works Department Development Fee Program to enable staff to continue workload from 2005-2006 and to prevent further decline of plan review cycle times.
- The Enhanced Parks Maintenance category includes a recommended one-time augmentation to address deferred park maintenance activities funded by the Enhanced Parks Maintenance Earmarked Reserve.

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- Included in the City Manager Initiatives category are various items that are discretionary in nature, but are considered urgent for the effective delivery of City services. Some of the recommended adjustments include implementation of a new PeopleSoft recruiting module to improve hiring processes, the addition of temporary staffing for revenue management efforts that will lead to increased Sales and Business Tax License collections, the addition of funding for the recruitment of the Budget Office and Retirement Department Directors, and technical assistance to participate in the Wireless Silicon Valley project. Also included are recommended actions to provide funding to the Planning, Building and Code Enforcement Department to assist with strategic planning efforts, and to the Office of Economic Development for the Okayama Sister City 50th anniversary celebration.

Augmentation/Reduction Adjustment Actions – Describes, in a table, the funding source or appropriation adjustments that are required to enact the augmentations and reductions described above.

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Recommended Clean-Up Adjustment Actions Overview

The ongoing review and monitoring of the budget through six months of the fiscal year have indicated specific areas where clean-up appropriation actions are required. Revisions are typically required to fully implement City Council direction, to correct existing appropriations, or to provide adjustments necessary to continue City operations.

Tables are provided in this section of the report (with the proposals listed in title only) to summarize the recommended adjustments for the General Fund and Special/Capital Funds. The following types of adjustments are included in this section:

- Net-Zero Salary Program Adjustments – The 2006-2007 Salary Program includes appropriation adjustments to various departments and funds to reflect salary and benefit changes that became effective after the adoption of the 2006-2007 Operating Budget. The two largest adjustments reflect benefit changes for the Police Officers' Association (POA) and salary and benefit changes for the International Union of Operating Engineers (OE3). The retirement rate for the POA's retirement enhancement benefit was approved by the Police/Fire Retirement Board in December and resulted in a cost of \$2.6 million in the General Fund. The OE3 contract was approved by City Council in November and resulted in additional salary and benefit costs of \$1.2 million in the General Fund and \$3.0 million in all funds. The General Fund increases were all anticipated and are funded from the Salaries and Benefits Reserve.
- Net-Zero Voluntary Furlough/Special Reduced Work Week Program Adjustments – Also included in this section are adjustments to various departments to reflect implementation of the Voluntary Furlough/Special Reduced Work Week Program. Savings (\$326,000 in the General Fund, \$956,000 million in all funds) are generated from employees taking unpaid time off (up to 45 hours) without the loss of accrued benefits (vacation, sick leave, and seniority) or reducing their weekly scheduled hours by as much as eight hours per week during the year. These savings were assumed in the development of the 2006-2007 Adopted Operating Budget. The actions reflected here remove the funds from the departments and restore the savings to the Salaries and Benefits Reserve where they were temporarily removed as part of the Adopted Budget.
- Net-Zero Overhead Adjustments – Due to staffing shortages, Finance was not able to deliver timely overhead rates to the Budget Office for the development of the 2006-2007 Adopted Budget. Special and capital funds, (including project budgets) were estimated assuming the prior year's overhead rates which were lower on an overall basis than the final published rates. As a

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Net-Zero Overhead Adjustments (Cont'd.)

result, adjustments are recommended to recover the updated overhead amounts, primarily offset by fund balances, based on the revised overhead rates, and to prevent negative appropriations by year-end.

- Net-Zero Public Works Administrative Adjustments – Revisions are proposed to account for Public Works administrative rate adjustments in order to prevent negative capital budget appropriations by year-end. Capital projects administered by the Public Works Department are charged an overhead rate to recover the actual cost of providing project administration and management services. The interim overhead rates applied to capital projects during the development of the 2006-2007 Adopted Capital Budget and applied during the first half of the year have been insufficient to generate the revenue (which are received in the Public Works Program Support Fund) necessary to recover these costs.
- Net-Zero Movements Between Appropriations – Included in this section is a revision to reallocate rent costs for the Old Martin Luther King, Jr. Library among the various Environmental Services funds based on the current occupancy of the facility.
- Rebudget Adjustments not included in the Annual Report – Revisions are proposed to correct appropriations for rebudgets that were not included or included in error in the 2005-2006 Annual Report (approved by Council on October 17, 2006) and are necessary to complete capital or other various projects. Included in these adjustments are rebudgets for the Weed and Seed – East San José grant, Teacher Mobile Home Program, and Non-Project Specific Department of Public Works (DPW) Services Project.
- Fund Balance Reconciliation – Included in this section is a revision to the 2006-2007 Beginning Fund Balance in the General Fund based on the final 2005-2006 General Fund reconciliation included in the Comprehensive Annual Financial Report.